STATE OF CALFORNIA
ELECTRICITY OVERSIGHT BOARD

Gray Davis, Governor

May 7, 2002

VIA E-MAIL FOR ELECTRONIC FILING

Hon. Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

Re: Electricity Market Design and Structure
Docket No. RM01-12-000

Dear Ms. Salas:

The Electricity Oversight Board hereby submits, on behalf of the State of California Inter-Agency Working Group on Market Design, an electronic version for filing of comments in response to the Commission's "options" paper issued on April 10, 2002, in the above-referenced docket.

Thank you for your assistance.

Sincerely,

/s/

Grant A. Rosenblum
Senior Staff Counsel
Electricity Oversight Board

cc: Official Service List of Docket No. RM01-12-000

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Electricity Market Design and Structure	Docket No. RM01-12-000

COMMENTS IN RESPONSE TO THE COMMISSION'S OPTIONS PAPER SUBMITTED BY THE STATE OF CALIFORNA INTER-AGENCY WORKING GROUP

I. INTRODUCTION

On behalf of the California Inter-Agency Working Group[1] (CIWG), the California Electricity Oversight Board submits these comments concerning the options for Long-Term Generation Adequacy identified in the Commission's recent "options' paper issued in this docket.[2]

These Comments include three specific topics:

1. General assessment of the resource procurement/reliability issue;
2. Brief comments on each of the five options in the Options paper; and
3. A brief summary of Advisory Forecast Energy Commitment (AFEC) proposal submitted to the California Independent System Operator (CAISO) by the CIWG as an alternative to the Available Capacity (ACAP) element of the CAISO's comprehensive market design proposal.

In addition, the current working draft of the AFEC proposal is attached for the Commission's and interested parties' information. [3]

[1] CIWG is composed of staff members from the California Public Utilities Commission, California Energy Commission, California Electricity Oversight Board, Consumer Power and Conservation Financing Authority, and the California Energy Resources Scheduling division within the California Department of Water Resources. The CIWG was originally formed to provide a technical forum for State of California energy agencies to review and comment upon Market Design 2002 proposals put forward by the California Independent System Operator. Such comments were filed with the CAISO on April 8 and April 19, 2002 on CAISO market mitigation measures and comprehensive market design proposals, respectively.
[2] FERC Staff, *Options for Resolving Rate and Transition Issues in Standardized Transmission Service and Wholesale Electric Market Design,* RM01-12-000 (April 10, 2002).
[3] In the public discussion of the AFEC proposal before the CAISO Board at its deliberative meeting held April 25, 2002 to review the various MD02 proposals, various misunderstandings of the AFEC proposal were repeated, thus motivating CIWG participants to clarify a few sections of the proposal.

II. RESOURCE PROCUREMENT/RELIABILITY

The Options paper identifies the *Working Paper on Standardized Transmission Service and Wholesale Market Design* [4]as the starting place for a discussion of long-term generation adequacy. The Options paper seeks to flesh out comments received on standard market design (SMD) in advance of issuing a proposed rulemaking on this topic and offers five options with respect to this topic.

The State of California concurs that long-term generation adequacy should be the responsibility of load serving entities. Grid operators and transmission providers should be assured that they do not assume the responsibility to be provider of last resort as a result of industry restructuring. State energy regulatory processes and most utilities around the country have conducted long-term adequacy assessments for decades. In many cases this was done in the context of formal state oversight of utility resources using integrated resource planning techniques. The federal Department of Energy does related analyses for the nation as a whole, although its products tend to be informational as inputs to policy rather than definitive for making specific resource commitments.

The CIWG believes that resource adequacy continues to be a fundamental responsibility of load serving entities under the oversight of appropriate state and local regulatory authorities. There are numerous issues about resource planning, resource selection, cost, siting, central station versus distributed generation, emphasis on energy efficiency, etc. that are traditionally resolved at the LSE/state authority level. The formation of ISOs or RTOs does not change the traditional rationale for these issues being resolved in the traditional manner.

Traditional resource planning can be distinguished from reliability. Reliability focuses on the operating reserves needed to cover day-to-day load fluctuations and to provide ancillary services to address various contingencies. Plant and transmission line outages are the principal contingencies. Resource adequacy should not be addressed as a subset of reliability. Instead, resource adequacy and reliability are two parallel elements of planning and operating electricity systems.

Reliability is a key interface between federal jurisdiction over transmission and state jurisdiction over resource adequacy. ISO and RTO processes should focus on the limited portion of total resources that provide operating reserves to cover day- to-day load fluctuations and ancillary services. State authorities should focus on overall resource adequacy. Cooperative arrangements must be developed to assure that resource adequacy and reliability efforts mesh properly.

III. REVIEW OF SPECIFIC OPTIONS

The Options paper identifies five options for discussion purposes. We comment on each, using the perspective sketched above.

[4] FERC Staff, *Working Paper on Standardized Transmission Service and Wholesale Market Design* issued March 15, 2002.

Option 1: Rely on energy prices and information on projected supply/demand situation

In Option 1, LSEs are responsible to acquire sufficient supplies to meet their needs, but to assist them the transmission provider would conduct and publish supply/demand balance studies for the system as a whole and key load pockets. LSEs would make their own choices about how to match supply with demand, but in the event that actual shortages occurred, the transmission provider would implement load shedding procedures targeted to LSEs that did not have adequate supplies.

CIWG finds many of these features acceptable. CIWG believes that LSEs should acquire their own resources, and be accountable for the consequences, even to the point of rotating outages for customers, in the event of shortfall. However, we do not believe the transmission provider should be the entity that conducts the overall supply/demand assessment, since this can be conducted by other entities that are more competent than the transmission provider. For example, LSEs are much more experienced and have more tools to pursue demand-side options, such as energy efficiency or price responsive demand, than the transmission provider. In addition, the LSE will be in better position to solve specific problems of load pockets than the transmission provider. Certainly it would be appropriate for transmission providers to participate in these studies to ensure that its unique knowledge about existing and prospective transmission congestion be included within the overall supply/demand assessment. Finally, coordination among various government agencies, LSEs and the transmission provider is needed to ensure that comprehensive examination of all resource adequacy solutions takes place.[5]

Option 2: Require a regional supply obligation

In Option 2, the transmission provider and the state authorities would establish a region-wide supply obligation, looking out 1-5 years, which each LSE would be expected to satisfy through its own selection from qualifying resources. The transmission provider would track activity through informational filings from LSEs and enforce compliance through mandatory load shedding, withholding of transmission rights, or some other action.

CIWG believes this option has positive features. The CIWG agrees a forward-looking benchmark for operating resources and other resources should be established to address particular contingencies. We support having the LSE provide informational filings with the transmission provider to facilitate assessing the status of supply/demand balances ahead of real-time. As noted in Option 1, we also support having LSE-specific

[5] The California Energy Commission, in response to Senate Bill 735, reported on the barriers that prevent an integrated examination of energy efficiency, distributed generation, and transmission solutions to resource adequacy concerns, CEC report XXXX, April 2000.

consequences of failing to satisfy procurement benchmarks, up to and including preferentially imposing rotating outages on these LSEs.

However, we do not believe that the transmission provider should assume the responsibility of establishing a general supply/demand obligation at the regional level. A general supply/demand requirement would not address transmission constraints or allow individual LSEs to pursue their own specialized interests in assuring resource adequacy. Further, in a region as wide as the Western Interconnection, subregional load diversity has enabled substantial seasonal power flows that have provided net benefits to all parties.

Option 3: Require a regional capacity obligation

Like Option 2, Option 3 requires establishment of a supply obligation on LSEs, but in this option it would only be demonstrated on a season- or month-ahead basis. Unlike Option 2, this option denominates the obligation in capacity terms. In addition, the transmission provider would establish a capacity market to facilitate LSEs' satisfying their obligations, with administrative penalties for ultimate non-compliance.

Option 3 proposes use of overt penalties for non-compliance rather than relying on incentives to ensure compliance. In an ideal world, market incentives would be the ideal choice for ensuring compliance. After four years of failed efforts to arrive at market mechanisms to make California's markets work, the CIWG agrees that imposition of penalties must be considered. Similarly, the CIWG strongly supports imposition of explicit obligations on load serving entities to accurate forecast and schedule and suppliers to perform according to schedules and any dispatch instructions issued by the transmission provider.

Aside from the issue of penalties, however, CIWG is strongly opposed to Option 3. We have both jurisdictional and substantive reasons to oppose this option.

CIWG believes it is inappropriate for a transmission provider to impose general supply adequacy obligations upon LSEs. The transmission provider should not establish obligations on LSEs beyond requirements for ancillary services and scheduling of resources. The role of the transmission provider should be narrowly circumscribed around reliable operation of the transmission system

First, although creating a market to facilitate compliance with such a transmission provider-imposed capacity obligations may potentially reduce the apparent cost of compliance, it would not assure that a proper mix of resources matching LSE load shape would be procured. A generic capacity requirement without a load-based match for the energy supply characteristics of that capacity is likely to increase total costs because of the risk that the wrong resources were acquired, i.e. nominally, sufficient resources were acquired, but certain resources could not be dispatched due to transmission congestion necessitating purchase of additional resources. There is danger that resources would only be acquired to comply with the transmission provider obligations.

Second, CIWG does not believe that the intended use of LSE-acquired resources designed to match load and reserve requirements should be subject to change through inclusion in the transmission provider's congestion management process. Demand responsive resources carefully matched to an LSE's load shape can readily serve that LSE's resource obligations, but may not easily match any other LSE's needs, so such resources should remain under the control of the LSE. Further, an LSE may control generating facilities that are energy limited, or otherwise constrained in general operation. Accordingly, it is the LSE that should decide when and how to operate these resources and they should not be available to the ISO for general system dispatch.

Third, LSEs should have the opportunity to identify resources that satisfy A/S requirements rather than general purpose energy/capacity requirements. Examples of resources that can satisfy A/S obligations but not general energy production include energy limited generating resources, and demand responsive resources. An LSE controlling energy-limited resources, including hydro with limited storage, may wish to preserve such resources to A/S or limited peak shaving roles. Similarly, an LSE may develop limited demand response programs of tariffs that operate for a few hours, or under certain load conditions, but which cannot function for extended periods or under all circumstances. Such demand responsive resources may be perfectly adequate as non-spin or emergency load reductions, but unable to submit to ISO market bidding protocols or to operate year round.[6]

Finally, creating a capacity obligation may transfer market power from real-time operations to forward markets. If generators are able to influence real-time market prices, then this option creates the potential that they will be able to influence prices for forward capacity needed not for any actual system operations, but capacity simply to satisfy transmission provider obligations.

This option is similar to the capacity requirement proposed by the CAISO known as Available Capacity (ACAP) in its Market Design 2002 effort. The CIWG opposes the CAISO's ACAP proposal for the same reasons we oppose Option 3.

Option 4: Impose a supply obligation on load serving entities only if projected reserves fall below a trigger level

In Option 4, the transmission provider, in cooperation with state authorities, would annually conduct a supply assessment looking forward 1-3 years. If supplies were sufficient to satisfy loads and reserve requirements, then no explicit obligation on LSEs

[6] For example, imagine an LSE-developed air conditioner load control program designed to be triggered when local temperatures hit 95 degrees or greater and which has been demonstrated to reliably deliver 100 MW. Assume that the LSE convinced the CAISO to count this resource as meeting its ACAP capacity obligation. The CAISO ACAP proposal would require the LSE to turn control over to CAISO for its dispatch. CIWG criticized the CAISO ACAP proposal for suggesting that such a resource be turned over to the ISO to be dispatched when the CAISO determined that it needed this resource. The conditions under which a transmission provider would want additional resources may have no relation to the specific local temperature conditions in which 100 MW of load reduction were feasible.

would be imposed. If region-wide loads were insufficient, then either Option 2 or Option 3 could be invoked. The Options paper suggests that Option 2 administrative penalties would be more cost-effective if these obligations were sporadic, since administrative compliance would be more readily "turned on and off" compared to sequentially establishing and eliminating capacity markets.

CIWG opposes this option for all of the same reasons stated above with respect to Option 3, plus some new ones. First, a region which is marginally in balance in one year and marginally out of balance the next year is undoubtedly composed of individual LSEs, or larger subregions, with quite different supply/demand balances. How would the transmission provider address these different circumstances? CIWG believes that each LSE should be responsible for procuring its own preferred mix of resources. Second, what would happen to region-wide market prices if some subregions or LSEs had obligations and others did not? FERC's experience with CAISO versus West-wide market solutions should reveal the folly of creating differential market signals between LSEs or subregions within a single interconnection.

Option 5: Capacity obligations for operating reserves only – forward reserves contracts

In Option 5, the transmission provider would define operating reserve requirements, and acquire the capacity (or require the LSE to acquire the capacity) through call options on generating capacity with a range of strike prices. On a day-to-day basis, these call options would be triggered by LSEs' bids to utilize the resources to provide reserves. If the transmission provider itself took a position in the market, then costs would be allocated to LSEs, but no enforcement mechanism would be needed. If the transmission provider took no position, and merely obligated LSEs to acquire callable resources and to bid them each day, then an administrative enforcement mechanism would be required.

CIWG believes that Option 5 would only be necessary if LSEs have difficulty acquiring reserves through bilateral contracts, or other means of self-providing ancillary services are insufficient, or the results of acquiring residual A/S through markets proves unwieldy

IV. APPROACH PREFERRED BY CIWG

As a result of intensive review of the ACAP proposal of the CAISO in its MD02 proceeding, the CIWG has developed its own preferred approach to resource adequacy known as Advisory Forward Energy Commitment (AFEC). AFEC has the desirable features of Options 1 and 2 that we described earlier, but excludes what we consider to be their specific negative attributes. Options 3 and 4 bear strong resemblance to ACAP, and we oppose them for the same reasons that we have opposed the CAISO's ACAP measure. We strongly recommend that if FERC believes it is necessary to determine how resource adequacy and reliability are addressed by transmission providers, that it adopt the general AFEC framework.

AFEC includes the following major elements:

1. State regulatory authorities, the CAISO, LSEs and market participants develop a suitable benchmark for reserve requirements for LSEs using NERC and WECC standards;
2. State and local regulatory authorities, in conjunction with the CAISO, LSEs, and other stakeholders, develop formal agreements between the CAISO and LSEs to define when to invoke rotating outages on an a particular LSE under various circumstances and contingencies if the LSE's resources fail to satisfy the benchmark;
3. LSEs are required to file with the CAISO month ahead and week-ahead reports about loads and resources;
4. Generators are required to file with the CAISO month ahead and week- ahead reports about commitments and remaining available capacity;
5. CAISO assesses likely operating reserve adequacy;
6. CAISO implements selective requirements for rotating outages by LSEs in the event of physical shortages;
7. CAISO uses cost causation principles when settling A/S costs to ensure that LSEs failing to satisfy benchmark requirements bear the financial consequences of this choice, and levies penalties for specific egregious violations.

CIWG filed its AFEC proposal with the CAISO and is now beginning to work with various stakeholders to refine the initial proposal to address the next level of details.[7] The CAISO Board heard extensive discussion about ACAP and AFEC at its April meeting, and adopted the following resolution:

> "2) Approves Management's recommendation for *a hypothetical* Available Capacity Obligation (ACAP), as an integral part of the Comprehensive Market Design that places the requirement on Load Serving Entities (LSE) to make available sufficient capacity to the ISO so that expected energy demand can be met *subject to reconsideration of the entire design when California's Electricity markets are returned to a stable condition with the caveat that the AFEC proposal be fully evaluated for incorporation into any ACAP design and that any ACAP give full credit to any contracts endorsed by CERS*. " [emphasis reflects edits to original ISO Staff proposed Motion]

The current draft AFEC proposal is included with these Comments as Attachment 1.

[7] CIWG filed its AFEC proposal with the CAISO on April 19, 2002 as part of a detailed critique of the CAISO Staff MD02 proposals of April 3.

V. CONCLUSION

CIWG acknowledges the Commission' role in ensuring that transmission providers are able to reliably operate a system that includes adequate levels and types of resources. However, we oppose extension of the Commission's involvement to the general topic of resource adequacy, a matter of state responsibility. That topic is best left to State and local regulatory authorities to resolve collaboratively with transmission providers and other stakeholders through existing State and local forums.

For these reasons, we put forward our proposal called AFEC, closely related to Options 1 and 2, as the best means to ensure that this goal is accomplished.

Dated: May 7, 2002

Respectfully submitted,

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ATTACHMENT 1

ADVISORY FORWARD ENERGY COMITTMENT (AFEC) - AN ALTERNATIVE TO ACAP

April 29, 2002

A. General Principles

The ISO has the responsibility for reliable operation of its control area encompassed by PG&E, SCE and SDG&E, municipal utilities that have joined, and other municipal and publicly owned utilities with interconnection agreements.

Local Regulatory Authorities (LRA) have jurisdiction and responsibility to govern procurement of electric energy for use by the retail customers under their jurisdiction. For the IOUs this is the California Public Utilities Commission (CPUC) and for Municipalities, Irrigation Districts and other similar entities, it is their respective governing boards, councils or commissions. Collectively, these LRAs govern more than several dozen load-serving entities (LSE).[8]

In order for the ISO to better prepare for the operation of the grid in real-time, it is necessary for the ISO to have advance knowledge (in advance of the day-ahead market) of the expected operational capability and contractual commitments of generators with PGA agreements. In addition, the ISO needs to understand the relationship of projected load levels to expected generation levels, and the extent to which sufficient supply resources have been procured to meet expected load and reserves.

Both the ISO and the State Inter-Agency Working Group (IWG) recognize the need for LSEs to acquire sufficient resources to meet their demand through an optimal combination of owned-generation, long-, mid-, and short-term contracts and spot purchases. The State, through its respective authorities, is currently engaged in ensuring that California possesses sufficient energy resources to meet energy needs on a forward basis

While the IWG agrees with the need for sufficient resources, as noted in our previous comments to the ISO staff and Board, the IWG continues to have strong and numerous reservations about the ISO's Available Capacity (ACAP) proposal, particularly in the form released April 3. These concerns are noted in our comments to the ISO Staff and in Appendix 2 attached to IWG's comments to the Comprehensive MD02 proposal.

The foundation of operational reliability lies in three things: (1) accurate load forecast and schedules, (2) dependable resource performance, and (3) availability of sufficient resources to meet expected load and reserve levels.

[8] LSE includes investor-owned utilities, municipal and other publicly owned utilities, and energy service providers for direct access customers.

Our AFEC proposal implements these three foundational principles:

1. It is mandatory for load to forecast accurately and schedule accurately.
2. It is mandatory for supply resources to schedule accurately and perform according to schedules and accepted bids.
3. It is essential for the ISO to know ahead of real-time operation the quantity and location of resources expected to meet load, and to know what is expected of the ISO should this load or resource schedule not materialize or perform.

The IWG believes the AFEC proposal provides for these three elements in a way superior to that of ACAP. In addition, the AFEC proposal recognizes the appropriate jurisdictions of all entities involved in the California electricity framework.

The elements of this AFEC proposal can be implemented on October 1, 2002, or shortly thereafter and will therefore begin immediately to help the ISO with operational reliability.[9] In contrast, ACAP's actual operational impacts do not materialize until ACAP capacity contracts exist between LSEs and generators, which is not likely until 2004.

To recognize the mandate and expertise of the ISO in operating the grid, and recognizing the jurisdiction of those who control long-term retail energy procurement policies, the following is offered as a preferred alternative to the ACAP element of the ISO MD02 market redesign proposal.

B. General Framework

The ISO, interested State Energy Agencies and LSEs will create an Advisory Forward Energy Commitment (AFEC) process.

The guiding principle of the AFEC process is to enable the ISO to be aware, sufficiently in advance of the Day Ahead market, of the amount of energy resources and reserves acquired by the LSEs to meet expected needs. The AFEC process will accomplish the purposes listed below.

1. Allow the ISO to interact with, and provide input to, LSEs and LRAs regarding desired levels of supply needed to reliably operate the grid.

2. Share information with all interested parties and develop accurate supply and demand forecasts, including estimates of ancillary services requirements such as reserves. These forecasts should be done on a sub-utility level when

[9] In a recent stakeholder meeting discussion the use and scheduling of interties for this summer, the ISO indicated that as much as 80% of its real-time operational uncertainties and difficulties would be solved if load schedules and generator performance were accurate and predictable.

necessary to address issues of regional reliability and transmission constraints.

3. Apprise the ISO with relative certainty of the upcoming resource situation sufficiently in advance of actual operation.

4. Apprise the ISO of the mix of resources and their respective availabilities.

5. Allow the procurement processes overseen by the LRAs to be effectively integrated with reliable operation of the grid.

6. Allow development of mutually agreed upon guidelines for tabulating energy and capacity available from various categories of resources. For example, recognizing the value of capacity from the DWR/CERS Contracts is a critical feature for assuring supply availability. In such valuations, actual contract performance, and not contract terms and conditions, should be the basis for these guidelines.

7. Allow LRAs, in conjunction with interested parties, to develop explicit agreements between LSEs and the ISO that address actions, such as triggering voluntary and involuntary load curtailments, that the LSE must take when informed by the ISO that LSE-provided resources fail to match LSE loads within acceptable tolerances

In addition the AFEC process should allow the ISO to:

1. Minimize real-time balancing activity and out-of market activity.

2. Avoid creating any new markets for capacity or purchase capacity (other than as currently done in the day-ahead and hour-ahead markets) on behalf of any LSE.

C. AFEC Process and LSE Requirements

The structure and process of AFEC is as follows:

The AFEC process would research and publish advisory non-binding estimates on the level of energy and reserves to reliably operate the grid in real-time and run small balancing markets. This should be an open process to allow appropriate stakeholder and other expert input. This information then forms the benchmark in the AFEC process.

LRAs commit to ensuring that they will develop resource procurement processes and mechanisms for LSEs under their jurisdiction that will require resources to match accurate load forecasts.

The AFEC process would examine not only reserve levels needed in real-time, but given historic forced outage rates, and equipment failures, would develop the level of reserves needed Month Ahead and Week Ahead in advance of real-time to assure availability of minimum levels at real-time.

The AFEC process would develop reporting processes and timelines by which all Load Serving Entities (LSEs) would report to the ISO their own level of energy and reserve procurement. This may be a Month Ahead report with Week Ahead and Day Ahead updates, or whatever is needed. The content, timing and format of these reports would be developed in the AFEC process. These reports from LSEs are mandatory. As a result of reviewing these reports, the ISO would take no action to remedy any deficiency they believe to exist other than to notify the respective LSE of the deficiency compared to the benchmark and the potential consequences to their load, such as potential for increased costs and greater probability of rotating outages.

It is critical to note that these reports are not to cause the ISO to procure, or otherwise act on behalf of the LSEs, except to acquire needed operating reserves not self-provided, consistent with WSCC standards. Procurement is the responsibility of the LRAs and LSEs. The ISO has a legitimate interest, however, in knowing the level of resources procured and the resources availability and readiness to provide for grid reliability. .

D. Participating Generator Reporting Requirements

In parallel with the reports each LSE is obligated to provide, each generator with a PGA is required to file a comparable Month Ahead and Week Ahead report that describes the portions of its capacity that are encumbered by commitments and the portion that is available, after adjusting for maintenance outages previously scheduled with the ISO. These reports are mandatory. They should describe commitments in a manner that enables the ISO to link PGA reports to the reports each LSE provides about its loads and resource commitments.

A critical deficiency in the current California market structure is the absence of any obligation on suppliers to conform to submitted schedules. The efficacy of the AFEC process requires that this deficiency be remedied. All resources scheduled with the ISO, therefore, should be explicitly obligated to perform as scheduled and according to proffered bids that are accepted after scheduling timelines. The information provided by the AFEC generator reports, together with existing PGA obligations to perform, a continuation of "Must-Offer" requirements, and implementation of the proposed "Residual Unit Commitment" process, will collectively assist the ISO in knowing what resources are available to be used as operating reserves and ensure reliable operation of the system.

E. Interaction of the AFEC Process and ISO Grid-Operation

The AFEC process will provide greater information about forward commitments than the ISO has had available to date. By comparing LSE and generator reports, the ISO can

develop an understanding of load uncovered and generation available. Once Day Ahead is reached, the ISO will rely upon its normal scheduling and operating practices, as modified by the MD02 proposals.

The LSEs will accurately schedule load and resources in the Day Ahead and Hour Ahead processes created by the ISO. The ISO will then operate in real-time knowing the resources with commitments to the LSEs will be available. The ISO will monitor unit performance and imports schedules provided by the LSE, and communicate significant deviations to the LSE.

This proposal is based on the explicit assumption that an LSE will bear all consequences of not meeting its full load by forward purchases. Through the coordination of the AFEC process, if the ISO, in advance of real time, does not anticipate that there will be sufficient supply available in real time, any LSE with a net short position will be warned of the possibility of rotating outages. If the ISO anticipates sufficient supply will be available in real time, the ISO will inform the LSE of this with the understanding that the LSE must bear the full cost of these purchases[10]. In either instance, the ISO is not obligated to meet the entire net short position of the LSE - only what the ISO can reasonably procure. If an LSE does not wish the ISO to purchase on its behalf, the LSE may provide load bids or other actions to be taken to allow the ISO to maintain reliability in real time. The format and content of these actions will be determined in the AFEC process with necessary input from LRAs and other stakeholders.

[10] Cost causation principles would be used to calculate the costs of energy provided and any fines levied by WSCC for reserve deficiencies to LSEs failing to satisfy the AFEC benchmark.

CERTIFICATE OF SERVICE

I hereby certify that I have caused the foregoing document to be served upon each person designated on the official service list compiled by the Secretary for this proceeding on or before January 16, 2002, pursuant to Rule 2010(a) of the Commission's Rules of Practice and Procedure.

Dated at Sacramento, California, this 7th day of May, 2002.

/s/

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